



PRIMER

Indiana State Teachers' Retirement Fund

For Active and Retired Members

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Long-Term Care Insurance

Long-term care and its related costs, often averaging over \$50,000 per year, is the single greatest threat to one's retirement savings. Simply put, the most thoughtful financial or retirement plan, without the protection of Long Term Care Insurance (LTCI) is vulnerable if care is needed – be it received in the home, in an assisted living/residential care facility, or in a nursing home. Many people believe they already have coverage under their health insurance plan or Medicare but the truth is as good as those plans are, they were never designed to cover long term care. We know there are many myths surrounding long term care.

We are pleased to announce the availability of two Long-Term Care Insurance (LTCI) programs for Indiana Teachers' Retirement Fund members and their close relatives. ISTA Financial Services Corporation sponsors one program being introduced. It offers three new LTCI policies. To get the facts so you can decide for yourself if this important coverage is right for you, you might like to attend one of the twenty-two ISTA sponsored no-cost two-hour educational seminars that will be offered throughout the state beginning July 6th.

The second program is sponsored by the Indiana Retired Teachers Association. This policy is underwritten by United Teacher Associates Insurance Company (UTA) and marketed exclusively by Association Member Benefits Advisors (AMBA).

You may call AMBA at 1-800-258-7041 (toll-free) to learn more about this plan.

You may also visit AMBA's web site at www.amba-info.com.

Individual Long Term Care Insurance

Seminar schedule - Summer 2004

Tuesday, July 6	1:30 p.m. Indianapolis NE	6:30 p.m. Richmond
Wednesday, July 7	1:30 p.m. Muncie	6:30 p.m. Marion
Thursday, July 8	10:30 a.m. Fort Wayne	6:30 p.m. Elkhart
Friday, July 9	10:30 a.m. South Bend	
Monday, July 12	10:30 a.m. Valparaiso	6:30 p.m. Kokomo
Tuesday, July 13	1:30 p.m. Lafayette	6:30 p.m. Crawfordsville
Wednesday, July 14	10:30 a.m. Brownsburg	3:30 p.m. Indianapolis N
Monday, July 26	10:30 a.m. Indianapolis S	3:30 p.m. Columbus
Tuesday, July 27	10:30 a.m. Bloomington	3:30 p.m. Bedford
Wednesday, July 28	10:30 a.m. New Albany	6:30 p.m. Jasper
Monday, August 2	10:30 a.m. Evansville	6:30 p.m. Vincennes
Tuesday, August 3	1:30 p.m. Terre Haute	

GUARANTEED FUND RATE CHANGE

Effective July 1, 2004, the Board of Trustees has set the Guaranteed Fund interest-crediting rate at **6.25%** for the 2005 fiscal year (July 1, 2004 - June 30, 2005). With rates on U.S. Treasury Bonds ranging from 2.45% to 5.31%, the Guaranteed Fund still offers an interest rate significantly above current market levels without any risk of losing money.

“COMING SOON”

By: Lynette Farrell

Live help is now a **click away**. Teachers' Retirement Fund (TRF) has incorporated online customer interaction services into daily operations. Commonly referred to as “live chat,” this service provides real-time support for online members. Listed are some of the innovative features that accompany this service:



Knowledge Base - Offers an information repository so you may receive immediate answers to your questions. A search is conducted by using categories or key words.

Co-Navigation - A customer care specialist will escort you through our website or multiple page forms.

Joint Form Filling - Allows a customer care specialist to assist you with completing and submitting challenging forms.

Chat Transcript Forwarding - Should you choose to receive the entire chat transcript, it may be sent to you automatically via email.

Push Page - The customer care specialist will send you directly to the pages you need.

Pre-Chat/Exit - Before engaging in a “chat,” the customer care specialist may gather important information and receive feedback about services received.

Transfers - If you choose to “chat” to someone in a specific division, your chat may be transferred to the appropriate staff person.

Typing Indicator - Notifies both you and the customer care specialist when the other is typing a message.

For security purposes, all “chat” conversations are SSL (128 bit) encrypted which means you may safely send and receive sensitive information.

Please refer to our website for instructions and hours of operation. Online customer interaction is brought to you as a means of expanding business communications. We invite you to explore the many benefits of this service.

DISABILITY BENEFITS

By: Amy Maynard

Members with five or more years of service credit who become disabled while in Indiana teaching service may apply for a disability benefit. There are two types of disability benefits:

Classroom Disability

The member must be out of service for a continuous period of six months without pay before disability benefits will be paid. No teaching service will be accrued while receiving the benefit. Classroom disability requires approval by the Fund Physician and re-examination, as specified by the Fund Physician, is required until age 65.

As long as the member receives the classroom disability benefit, his Annuity Savings Account (ASA) will continue to be invested with the Fund under the same guidelines as an active teacher.

If the member qualifies and chooses to transfer from the classroom disability benefit to a retirement benefit, all contributions and interest in the account will be used to determine a monthly benefit amount or could be withdrawn at the time of transfer. If a member dies before transferring to the retirement benefit, the total disability payment made to the member would be deducted from any ASA distribution. If a member dies after classroom disability has been transferred to a retirement benefit, no disability payments will be deducted from any ASA distribution.

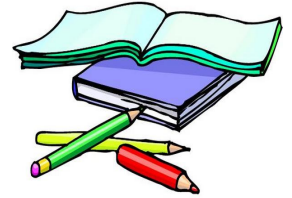
Disability Retirement

To be eligible for a Disability Retirement benefit, the member's disability must occur after June 30, 1984 and proof of the member's qualification for Social Security disability must be furnished to the Fund.

Any member applying for a Social Security disability, who also intends to apply for the Fund Disability Retirement benefit, should complete a Fund Disability Retirement Application. This should be sent to our offices immediately (even if the member has yet to receive an award letter from the Social Security Administration). A copy of the member's application to Social Security for a disability benefit should be attached to the Fund's Disability Retirement application form; the member should **never** wait to file the Fund's Disability Retirement Application with the Fund until the Social Security award letter is received.

The onset of the social Security disability must be effective back to the time the member left Indiana teaching in order to qualify for a disability retirement benefit from the Fund.

NEWLAND'S notes



Bob Newland has been with the Fund for 18 years. He began as the Investment Coordinator and is currently the Deputy Director for Investments. He has an undergraduate degree in Political Science from Indiana University, and an MBA with a Finance concentration from American University. He also has certifications in financial asset management as well as employee benefits.

My last article emphasized the Fund's reliance on State law for its general legal directives. There is still one area however, where we must pay close attention to the IRS. As I have stated in prior issues, structurally we operate as both a defined benefit plan and a defined contribution type plan (the latter being what we call the Annuity Savings Account) – all under one umbrella. We are, however, qualified with the IRS as a single defined benefit plan. Since both employers and employees contribute to the plan, the IRS views us as a sort of "contributory" defined benefit plan. Regardless of where the money comes from, or who the plan sponsor is an IRS qualification is still needed for the following reasons:

- 1) so contributions made by employees can be made pre-tax;
- 2) so employer contributions can be tax deductible (this is primarily for corporate plans); and,
- 3) so any income earned from investing these contributions can be tax exempt.

Most defined benefit plans are primarily funded by the employer. While some employers may have employee contributions in their plans, they are normally kept physically separate from employer assets. Not only do we have a structurally combined plan, we also commingle employer and employee assets as well. This affords us a number of advantages. First and most important, since we are so large (nearly \$7 billion), we can use our size to negotiate management fees to our advantage. In one of my earlier columns, I pointed out the lowest fee for an S&P 500 Index Fund in the mutual fund arena is around 18 to 20 basis points (.18% to .20%). In general, index funds are normally considered to be among the lowest cost mutual funds. Our S&P 500 Index Fund charges about 1.5 basis points (.015%). By combining both our employer and employee assets together (about three-quarters of a billion dollars in the S&P 500 Index strategy), we can use our large scale to keep management fees low. This means more of the Fund's return is kept by the investor. Although other plans commingle their assets, this is fairly unique in the pension world.

A second advantage is lower transaction costs, which would primarily be commissions and market impact costs. Rebalancing employer assets can frequently be combined with quarterly employee rebalancing to reduce the number of separate transactions and their associated costs. Again, this leaves more money on the table for the investor.

Even though the plans are structurally combined and the assets are co-mingled for investment, they are still kept separate on the Fund's books and the books are annually audited. As a matter of fact, the Fund's audit has produced a report with no exceptions for the last two years. As any CPA will tell you, this is very rare and quite an accomplishment, in the accounting world.

Frequently Asked Questions

By: Tom Davidson

What do I need to know if I am 70 years old and want to begin receiving a TRF benefit?

Active teachers who are over 70 years of age may elect to begin receiving a retirement benefit and continue teaching without a 90 day separation of service and there is no earnings limitation. If they elect to start receiving a benefit, they waive the accrual of further service credit (in rare cases, further service credit could be awarded if it is actuarially determined that the added service would be more valuable to the member than the benefit they had been receiving during the time they were still teaching after making the election).

What happens if an active teacher decides at age 71 or older that he or she wants to make the election to begin receiving benefits?

If the teacher wishes, he or she may receive retroactive payments back to age 70 using the five highest salaries and service credit earned at the time the teacher turned age 70. On the other hand, the teacher could elect to use his or her current five highest salaries and total service credit at the time he or she makes the election and get no retroactive payments. The choice is the teacher's and the decision is irrevocable.

Is there a six (6) month retroactive provision in these cases?

No. Let's say a teacher who is 72 learns of the law as cited above and wants to take advantage of it. The teacher can waive the two years of service credit earned after turning 70 and get retroactive benefits from the date the teacher first became eligible under the rule.

Do I need to submit a Trust document if I want to designate a trust or a beneficiary?

We do **not** need a copy of a trust instrument or a trust affidavit when a member designates a trust as a DEATH beneficiary of their Annuity Savings Account (ASA). We **do** need a copy of the trust or a TRF trust affidavit when a retired member wants to direct deposit their monthly retirement benefit into a trust account. It is permissible for a monthly benefit to be direct deposited into a revocable trust so long as there are no conditions regarding the member's ability to take money out of the account.

What can be done when a member says their DD214 is incorrect and wants more military service credit than shown on the DD214?

In the most recent case, the member should have their record reviewed and corrected. A copy of a Department of Defense form with instructions and where to mail the completed form can be found at:
<http://web1.whs.osd.mil/icdhome/forms.htm>

On rare occasions members will not have a copy of their DD214 and the military cannot find their record either. When this occurs, the Department of Defense will provide the member with a letter indicating they cannot find their record. While difficult, the member can still provide proof of his or her honorable service through other means. This might include copies of certificates, diplomas, training records, newspaper articles, affidavits, et cetera. The Board of Trustees will determine if such evidence is sufficient not only to prove active service, but also an honorable discharge.

I retired two years ago and selected the A-4 Social Security Equalizer. I am 57 years of age and have just been offered a high paying PERF covered position. The problem is for most of each year I will be over the earnings limit and will not receive a benefit from TRF. As you can see, year after year I won't be getting the added benefit of the A-4 as intended and at age 62 my TRF benefit will drop. Can I change my choice of benefits?

Yes, under certain conditions. The general rule is that unless an exception exists, a retiree's choice and form of retirement is irrevocable once they make a selection and begin receiving benefits. There is an exception that is found in the Indiana Administrative Code at 550 IAC 2-8-3. This exception applies to retirees who:

- 1) Select the Social Security Equalizer Option; and
- 2) Reemploy in a covered position.

These re-employed retirees may change their retirement option provided they repay with interest to the Fund that portion of the retirement benefits received which represents the increase in the monthly benefit prior to age 62. Once the re-employed retiree retires again, the A-4 option is not available to the member.

When a TRF retiree re-employs in a position covered by TRF or PERF, will the member receive additional service credit in the event they stop working again?

It depends. If the re-employed retiree worked in a covered position for at least 90 days, then yes the member can apply for a supplemental benefit. If the re-employed retiree worked in a covered position for less than 90 days, then they are only entitled to their ASA contributions and earnings, if any were made during the period of re-employment.

History of the Fund - Part II

By: Steffanie Rhinesmith

The first installment of Teachers' Retirement Fund (Fund) History focused on how the Fund was created and how changes in legislation over the years effect retirement benefits today. This second installment discusses financial conditions of the Fund.

At the end of fiscal year 2003, the Fund managed approximately \$6.2 billion for more than 145,000 members; 73,641 active, 36,235 retired and 35,685 inactive. The assets are allocated according to the following listing:

Member Annuity Savings Accounts (ASA)	\$3.633 billion
Pension Stabilization Fund	\$1.860 billion
1996 Plan Employer Reserves	\$407.0 million
Other Pre-1996 Plan Reserves	<u>\$256.0 million</u>
Estimated Total	\$6.2 billion

Almost 60 percent of the Fund's assets represent ASA contributions. This money belongs to the members and they determine how it is invested. Remaining dollars are generated from employer reserve assets that are designated to fund retirement benefit accounts.

Currently, the unfunded liability stands at \$8.2 billion, although not much is understood about this number. Please note the following explanation:

- If the Fund paid out all retirement benefits, we would owe \$14.4 billion. This amount includes ASA contributions and earned pension benefits.
- With \$6.2 billion on hand, this translates into an unfunded liability of \$8.2 billion.
- For every year of additional service and as salaries increase, the Fund's fiscal obligations also increase.
- Each time the Fund pays a monthly benefit or distributes money as a result of separation from service or in the event of death, the liability will decrease.

If TRF were fully funded today, State and school district contributions alone would adequately pay for services performed. In addition, contributions might be reduced by returns earned on a number of key investments.

Realistically speaking, although all retirement benefits owed are not due tomorrow there are concerns that will undoubtedly be raised in the future. What will be the total cost for benefits in the next ten (10) years and how will those benefits be paid. This concern led the State to initiate major legislative changes throughout the 1990's. Fortunately, these changes did not effect earned benefits. Please note the following legislative initiatives:

- A 1996 Plan was created to pay benefits for new teachers hired or transferred to a new school district after July 1, 1995.
With existing employer reserves of \$439.7 million, the State created a Pension Stabilization Fund (PSF). From 1996 through 2002, the State added \$657.5 million from surplus and general fund revenues and until the end of fiscal year 2003, contributed \$30 million annually from lottery and gaming revenues. To better understand the magnitude of pension payments, the following table describes payments over the last ten years and expected payments for the next ten years.

(Continued on next page)

History of the Fund - Part II (continued)

Retirement Benefits Paid (including COLAs, but not ASA accounts)		
Fiscal Year	Amount	State Appropriation
2003	\$441.6	\$460.3
2002	\$407.8	\$435.4
2001	\$378.1	\$403.5
2000	\$353.2	\$371.9
1999	\$331.9	\$337.7
1998	\$310.5	\$317.2
1997	\$286.1	\$251.9
1996	\$265.4	\$240.6
1995	\$243.3	\$228.2
1994	\$224.8	\$219.8

Expected Retirement Benefits (not including COLAs or ASA accounts)		
Fiscal Year	Amount	State Appropriation
2004	479.5	\$266.3
2005	508.9	\$310.3
2006	536.4	?
2007	569.7	?
2008	608.1	?
2009	649.1	?
2010	694.9	?
2011	744.0	?
2012	794.9	?
2013	847.0	?

- In August of 1998, after careful study and consultation with investment professionals, the TRF Board of Trustees adopted an asset allocation that moved 55% of the Fund's assets into equity investments. The first two years of the new allocation produced better returns for the Fund, however with the downturn in the equity markets, fiscal years 2001 through 2003 did not fair as well.
- Through March of this year, total Fund returns have far exceeded those in fixed income investments. Since the movement into equities, the last five years have produced virtually the same annual return as a portfolio invested 100% in fixed income.

TRF has weathered the equity market downturn well, and with stock investments expected to out-perform fixed income investments over the long term, the decision to move into equities was a prudent one and should increase the value of the Fund over the long term.

Changes enacted by the State greatly improved the financial condition of TRF. The growth of the unfunded liability has stabilized, teachers are earning benefits and money has been designated to cover benefit expenses for retiring teachers. Also, higher returns are made possible by the movement into equities.

With all that has been done, there is still much work to do. Improvements enacted throughout the late 1990's can quickly disappear if current payout decisions continue. To ensure stability, members must remain diligent in communicating with school boards and legislators that retirement benefits are important and should be appropriately subsidized. ▣

Reminder: Retirement Counseling Appointments will resume on September 20, 2004 due to the volume of retirement applications needing to be processed.



The Untruth of Delaying Retirement

By: Ken Smithee

Good Intentions May Cause Benefit Loss

Our records indicate some members who meet age and service credit eligibility have not applied for benefits. Some believe delaying retirement will increase the amount of their pension benefits - it won't. Others believe they must wait until age 62 for their benefits, providing they have fifteen (15) years of creditable service - they don't. It is a myth that a member may receive retroactive payments back to the date they were fully eligible to retire. In actuality, we may only pay six (6) months retroactive pay. Delaying retirement when you are inactive and 100% retirement eligible can cost you a significant amount of money.

In some cases, it may be wise for an inactive teacher to delay retirement. This holds true when the member does so to align their age with required creditable service, for example, at age 60 with fifteen (15) years of service or age 65 with ten years of service. Doing so ensures the member receives 100% of their entitlement. On the other hand, a retiring teacher at age 59 with fifteen (15) years of service may retire at age 59, but they will do so at 89 percent of their accrued benefits. In either case the benefit is payable for life.

Note to retirees with a co-survivor option

By: Shelley Horner

The choice of retirement options and the designated co-survivor were made at the time you retired. In most circumstances, this decision may not be changed. Generally, there is only one exception to this rule. The exception being if your co-survivor should pass away while you are still receiving benefits. In this special situation, you may elect to change to a straight life retirement option (called a pop-up) or to name a new co-survivor.

If your designated co-survivor is already deceased, and you chose one of the survivorship (B) options at retirement, contact our office for additional information as you may be eligible for an increase in your monthly pension benefits. A Change of Option Estimate Request form must be completed and a certified death certificate provided. Upon receipt of these forms, TRF will provide you with an estimate of benefits under the straight life (A2) option and, if requested, the co-survivor options as well as an Application for Retired Member Change of Beneficiary and/or Retirement Option form. The final step would be for you to complete and return the application form to TRF. At that time, your retirement benefits would be changed to your new option and/or co-survivor. Keep in mind this change is effective as of the first of the month following receipt of the application. It is not retroactive to the date of death of the co-survivor.

As long as your designated co-survivor is living, at the time of retirement, no changes may be made.

The *Primer* is published by the Fund to update members on Fund news and to give general information about Fund benefits. Specific information is available in the Active Member's Handbook, the Retiring Member's Guidebook or by contacting the office.

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TRF WEB NEWS

By Therese Koers

Direct deposit vouchers for the most recent six months are now available on our website.

Whether you've misplaced one or simply opted out of receiving paper copies, you can retrieve your direct deposit vouchers from the past six months. To view, visit https://secure.in.gov/trf/member/direct_deposit.asp by clicking on 'Retirees', then 'Direct Deposit Vouchers' from our home page.

Coming soon!

New look for our website! The look of the TRF website is changing. All of the same valuable information will still be available, just easier to find and quicker to download. The most popular pages are now available from our home page with just a click of the mouse. Some of the new features will include:

Search the website - Can't find the information you need? Use the new search feature! Just type in the topic of interest, and all the pertinent pages will be listed.

Live Help - Get help without picking up the phone! You will be able to request assistance, ask a question, or just get information about our website without leaving the internet! Just click on the 'Live Help' button on our home page, and you will be connected to a REAL person who will be happy to assist you. For more see page 2.